

## **MINUTES**

### **MONTANA HOUSE OF REPRESENTATIVES 57th LEGISLATURE - REGULAR SESSION JOINT APPROPRIATIONS SUBCOMMITTEE ON HEALTH & HUMAN SERVICES**

**Call to Order:** By **CHAIRMAN DAVE LEWIS**, on February 12, 2001 at 8:00 A.M., in Room 152 Capitol.

#### **ROLL CALL**

**Members Present:**

Rep. Dave Lewis, Chairman (R)  
Sen. John Cobb, Vice Chairman (R)  
Rep. Edith Clark (R)  
Rep. Joey Jayne (D)  
Sen. Bob Keenan (R)  
Sen. Mignon Waterman (D)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Robert V. Andersen, OBPP  
Pat Gervais, Legislative Branch  
Lois Steinbeck, Legislative Branch  
Sydney Taber, Committee Secretary  
Connie Welsh, OBPP

**Please Note:** These are summary minutes. Testimony and discussion are paraphrased and condensed.

**Committee Business Summary:**

Hearing(s) & Date(s) Posted: DPHHS Supplemental Review  
Senior and Long Term Care  
Executive Action: Executive Action on  
Supplemental Budget and  
Committee Bill Request

***{Tape : 1; Side : A; Approx. Time Counter : 0.3-10.5}***

**Gail Gray, Director of the Department of Health and Human Services (DPHHS)**, reviewed the items that the Department intends to address in discussion of the supplemental and distributed several handouts to Committee members **EXHIBIT(jhh35a01)** and **EXHIBIT(jhh35a02)**. There are a series of plans in the supplemental, and the management plan provided to the Committee

in January is still in place unless the Committee recommends otherwise. That plan included a series of cuts in the Department that have already been implemented. Items not yet implemented are elimination of partial hospitalization and case management for non-Medicaid children. Should the Committee choose to not recommend anything specific with regard to the January memo on supplemental mitigation, the Department will proceed with recommendations in the January and February 9 memos.

**Director Gray** added that it is essential that there be some legislative changes in addition to all of the management and appropriations recommendations that are being made. The Department is also very interested in Committee suggestions on program cuts. If costs exceed appropriations, when the optional services are cut on an outpatient basis, people go to a mandatory service in order to get treatment or medication.

*{Tape : 1; Side : A; Approx. Time Counter : 10.5-11.9}*

**CHAIRMAN LEWIS** discussed the February 9 memo in which **Director Gray** requested a \$1 million increase in the supplemental up to \$18.4 based on the growth in Medicaid. There was also another \$5 million for the upcoming biennium for Medicaid. **Director Gray** responded that he was correct, but that her staff had been working on modifications and suggestions for dealing with the increase.

*{Tape : 1; Side : A; Approx. Time Counter : 11.9-17.9}*

**Connie Welsh**, Office of Budget and Program Planning (OBPP), passed out a letter from **Director Swysgood** to **CHAIRMAN LEWIS EXHIBIT(jhh35a03)**. **Ms. Welsh** directed Committee members to the supplemental appropriation request at the end of Exhibit 2 and the net supplemental request of \$16,254,248. This proposal assumes everything originally laid out. The request also includes a Medicaid increase of about \$1 million in FY01, updated projections regarding where the Department would be on the MHSP cost mitigation in 2001, and the impact of intergovernmental transfers. This updated request will reduce **Director Swysgood's** January 15 supplemental request by \$935,574.

Other substantial changes in the Department's FY01 general fund budget status include a reduction in foster care and regional administrative costs, totaling \$671,640. The Department will also use TANF maintenance of effort (MOE) funds to offset a portion of the children's only Mental Health Services Plan costs for January and February 2001.

*{Tape : 1; Side : A; Approx. Time Counter : 17.9-33.2}*

**CHAIRMAN LEWIS** summarized the estimate of Medicaid increases as \$1 million in FY01 and \$5 million over FY02 and FY03. **Director**

**Gray** emphasized that the increase appears primarily in the area of Social Security Insurance (SSI) individuals. The numbers of individuals are not big increases, but the costs for those individuals are large. One issue that the Department has discussed extensively is whether or not the increase is an anomaly. **SEN. WATERMAN** asked if they are young adults coming into the system, to which **Director Gray** said that she does not know, but it is not children. In talking to **Michelle Thibodeau**, she said that a larger number of the people that apply for this designation are being accepted, which may be part of the problem.

**John Chappuis, Financial Operations and Support Services Bureau Chief, Health Policy and Services Division**, reviewed his February 6, 2001 memo to **Director Gray EXHIBIT (jhh35a04)**. **Mr. Chappuis** explained that the 499 people added to the Medicaid rolls since December 1999 are expensive, costing nearly \$9,000 each per year. Responding to **CHAIRMAN LEWIS's** question regarding who paid for these people before, **Mr. Chappuis** said that he does not know, but they were not on this program.

*{Tape : 1; Side : A; Approx. Time Counter : 33.2-39.1}*

**Mike Hanshew, Administrator of Senior and Long-Term Care**

**Division**, explained that the waiver cost effectiveness test is an aggregate test. It says that the average person in the waiver has to cost less than the average cost of institutional care. There are individuals in the waiver that cost more in the average and there are individuals in the waiver that cost less. There are individuals in nursing homes that receive care that costs more than the average, but the costs for those people are offset by those who require less attention and care. The cost effectiveness test is average to average.

**SEN. WATERMAN** asked if someone is watching to make sure that the aggregate is not also in danger of going over. If there are this many people whose costs are increasing so much, at some point, the average will be higher for home and community-based waiver than it would be for hospital care. **Mr. Hanshew** explained that in doing the cost effectiveness comparison, all Medicaid costs are included. The acute care costs of individuals enrolled in the waiver are compared to the average costs of someone in a nursing home. This is done for the federal government on an annual basis.

**Mr. Hanshew** explained further that access to waiver services is controlled with slots, so even though there may be an increasing number of eligible people who could be involved in the waiver, the advantage of the waiver is that they are not enrolled unless there is an opening. There has not recently been an increase in

utilization in the Medicaid entitlement program, in part, because of the prior authorization contract.

**{Tape : 1; Side : A; Approx. Time Counter : 39.1-40.2}**

**SEN. WATERMAN** is still trying to get a handle on who these people are. Are they people waiting for slots in home and community-based waiver in Senior and Long-Term Care or are they in Developmentally Disabled (DD) slots? Why the higher utilization in hospital costs? Are they using them because they are not able to get into some other service or what?

**{Tape : 1; Side : A; Approx. Time Counter : 40.2-41.4}**

**Mr. Chappuis** responded that he thinks that the numbers reflect people that are mostly new to the system. For whatever reason, they became eligible and used the services. They are probably mostly people in Disability Services Division.

**{Tape : 1; Side : A; Approx. Time Counter : 41.4-43.2}**

**Mr. Hanshew** commented that there has been some discussion that there may be some disabled individuals in hospitals with high acuity needs - ventilator dependent people. These people cannot be admitted to nursing homes because their care needs are too intensive, so they may be experiencing higher costs in the hospital. There is discussion about identifying these individuals to provide some increased mechanism for increased funding on the nursing home side in order to save money on the hospital side.

**{Tape : 1; Side : A; Approx. Time Counter : 43.2-50.6}**

**Mr. Chappuis** went over the information from **Michelle Thibodeau** in Exhibit 4. There are several court cases that redefined the way eligibility is being determined and have caused an influx of disabled people into the program. It is not that more people are applying, but that more people applying are getting on. Overall there has been an 11% increase in inpatient hospital and a 6% change in the case mix - the patient acuity. The increase in the disabled is probably what is driving the case mix change as well as the overall increase in caseload.

**{Tape : 1; Side : B; Approx. Time Counter : 0.3-3.9}**

**SEN. WATERMAN** wants the Department to figure out where these people came from and find out why they are utilizing the high cost hospital services.

**{Tape : 1; Side : B; Approx. Time Counter : 3.9-10.9}**

**Mr. Hanshew** handed out a map of the county affiliated nursing homes **EXHIBIT(jhh35a05)** and explained the history of the intergovernmental transfer program. He then went over the history of the nursing home problems since 1991. Prior to 1991,

many county facilities were supplemented with 100% county money, but at that time the state opted for the nursing home bed tax in order to help fund nursing homes.

The Department began looking into the concept of intergovernmental transfers a year ago. The idea is that county affiliated nursing homes would transfer some of the county money to the state in order to increase Medicaid payments, which would be used as match to increase the Medicaid payments to the county facilities. Last year, 14 county facilities agreed to send \$73,000 to the state, which has increased their Medicaid rates about \$270,000.

***{Tape : 1; Side : B; Approx. Time Counter : 10.9-25.5}***

**Mr. Hanshew** explained the Medicare upper payment limit to rates and the method used to compute the upper limit **EXHIBIT (jhh35a06)**. As the result of various abuses by states, the federal government divided the county facilities into a class so that those facilities can only be paid the difference between their average Medicaid rate and the Medicare upper limit. Above that, the federal government will not participate. The difference in Montana would be over \$7 million per year.

***{Tape : 1; Side : B; Approx. Time Counter : 25.5-43.1}***

**Mr. Hanshew** explained that the plan involves three distinct transactions. The state enters into a written legal agreement with each participating county that outlines the transaction. Those counties send the state \$2 million in state special revenue. The state makes Medicaid payments of \$7 million back to the county facilities. The county then transfers some county monies back to the state. The amount and use of those funds is negotiable, but the model shows the county sending state special revenue of \$3 million back to the state, leaving the counties with \$4 million. Of the \$3 million returned to the state, \$2 million would be deposited to general fund and \$1 million will be matched into Medicaid to produce a \$3.2 million payment to the four-fifths of the nursing facilities that are not county affiliated as a lump sum payment. It is a Medicaid payment outside the existing rate structure.

***{Tape : 1; Side : B; Approx. Time Counter : 38.1-43.1}***

**SEN. WATERMAN** asked why the money would go into general fund instead of keeping it for match. **Mr. Hanshew** stated that should the Committee fund increased expenditures in the nursing home program and also the 4.5% rate increase, it will be the \$4 million match over the biennium in general fund nursing home increase. **CHAIRMAN LEWIS** interjected that the \$2 million should be used to pay the rate increases, and **SEN. WATERMAN** said that she wants the whole amount in the budget.

**{Tape : 1; Side : B; Approx. Time Counter : 43.1-51.4}**

In further discussion, **Mr. Hanshew** explained that county affiliated nursing homes would have additional funds equal to about \$2 million spread over 20% of the bed days, and non-county facilities would have about \$3.2 million worth of funds spread over the other 80% of the bed days. It would be paid as a lump sum.

**{Tape : 2; Side : A; Approx. Time Counter : 0.3-7.7}**

**Mr. Hanshew** added that the state will need to develop a state plan amendment before the end of March, which commits the state to pay county facilities to the Medicare upper limit, and submit it to HCFA for approval. The only money that would be available this fiscal year is half of the figure calculated for the year.

**Mr. Hanshew** said that the Department will negotiate with the counties and that some will be disappointed that they will not receive all the money. He expressed his desire to fix the nursing home payment system so that there is a flat rate adjusted to acuity of residents.

**{Tape : 2; Side : A; Approx. Time Counter : 7.7-10.9}**

**SEN. COBB** asked how taking the \$2 million out will affect the long term situation. **Mr. Hanshew** said that if they get the rate increase and the \$2 million there will be more new money in nursing homes. If the Medicare limit moves up faster than the rates, it may create additional money in future years.

**{Tape : 2; Side : A; Approx. Time Counter : 12.3-14}**

**Mr. Hanshew** assured **REP. CLARK** that all counties will receive the offer, but that some counties do not have affiliated nursing homes. Because it is an aggregate, should a county choose to not participate, that county's share based on bed days could be distributed across the other facilities.

**{Tape : 2; Side : A; Approx. Time Counter : 14-15.6}**

**REP. JAYNE** asked how Lake County is affected by this. **Mr.**

**Hanshew** explained that it is not paying in, but private nursing homes in Lake County would be eligible for additional money.

**CHAIRMAN LEWIS** commented that the biggest challenge will be to convince the participating counties that doubling their money is good enough.

**{Tape : 2; Side : A; Approx. Time Counter : 19-22.1}**

In response to a question from **SEN. WATERMAN** regarding the use of intergovernmental transfers (IGT) and county alcohol money for chemical dependency, **Mr. Hanshew** stated that counties have been well represented at the IGT seminars he has been conducting. **Ms. Steinbeck** mentioned that she recently saw a memo from the

Department that indicated that using the alcohol tax money in such a transfer would be difficult to do because Medicare pays only 50% of bill charges. As long as the county provides a service that is Medicaid eligible, the IGT could be used to capture county funds and pay the rate differential.

**Mr. Hanshew** stated that more than 60% of the Medicaid match cannot come from IGT.

**{Tape : 2; Side : A; Approx. Time Counter : 22.1-23.3}**

**SEN. WATERMAN** requested that LFD staff look into dental and medical reimbursements at the public health clinics that accept Medicaid being used as match and then transfer funds back to increase the rates for those facilities. **Ms. Steinbeck** suggested that it could, but that the calculation of the Medicare upper payment limit might hinder this.

**{Tape : 2; Side : A; Approx. Time Counter : 23.3-25.2}**

**Director Gray** commented that the Department is looking into doing this in other areas. It is a complex process requiring time.

**{Tape : 2; Side : A; Approx. Time Counter : 25.2-30.6}**

**John Koch, Department of Health and Human Services**, stated that if it stays within the parameters; does not fund more than 60% of the Medicaid program out of county funds; and stays within the caps for upper payment limits, IGT is within federal regulations.

**{Tape : 2; Side : A; Approx. Time Counter : 30.6-34.5}**

In response to questions from **REP. JAYNE**, **Mr. Hanshew** said that after the funds are commingled, the counties are expected to send the money back to the state. Should the counties decide to not return money to the state, the Department could take legal action since it is a legal agreement. The transfers should probably occur on a quarterly basis.

**{Tape : 2; Side : A; Approx. Time Counter : 34.5-37}**

**Ms. Steinbeck** added that the counties could transfer to the state in excess of \$60 million before the ceiling is hit. There would not need to be a cash flow issue if the IGT occurred by electronic transfer, and a condition of the contract could be that a portion of the funds be used for county nursing homes.

**{Tape : 2; Side : A; Approx. Time Counter : 37-40.3}**

**CHAIRMAN LEWIS** stated that the Department has presented a proposal for dealing with the supplemental, and unless it hears otherwise will continue down this road. Does the Committee wish to take action at this point? There will be no action on HB 3 for another three weeks, but the Department would like to know now. In response to **SEN. WATERMAN's** question about the delay on

HB 3, **CHAIRMAN LEWIS** explained that House Appropriations was thinking of taking it up after the break. **SEN. WATERMAN** commented that the Department needs some certainty on this.

**{Tape : 2; Side : A; Approx. Time Counter : 40.3-51.2}**

**Ms. Steinbeck** reviewed her analysis of items in the supplemental request **EXHIBIT(jhh35a07)** and went over the LFD issues. DPHHS calculated the base rate using a single month's cost and LFD used an average of the latest six months, which accounts for the differences. The net difference between LFD estimates and DPHHS estimates is about \$620,000 this year, including the differences LFD would calculate due to the savings if eligibility for kids on MHSP is eliminated.

**{Tape : 2; Side : B; Approx. Time Counter : 0.3-4.7}**

**Ms. Steinbeck** discussed the allocation of alcohol state special revenue in FY01, , which is projected to offset \$500,000 of general fund. **Ms. Steinbeck** suggested that the \$162,000 of general fund that is spent for low-income services for children could be offset if all the payments are made to state approved programs. If payments are not made to state approved programs, it could not be done.

**{Tape : 2; Side : B; Approx. Time Counter : 7.2-8.7}**

The fourth LFD issue is the continuation of MHSP services for children who are not eligible for CHIP.

**{Tape : 2; Side : B; Approx. Time Counter : 8.7-10.8}**

**SEN. COBB** asked if the Department would be able to handle this with the staff it currently has and be ready March 1. **Dan Anderson, Administrator of Addictive and Mental Health Services**, remarked that the main task in switching to the reduced benefit children's program is elimination of certain services to which those children are entitled.

**{Tape : 2; Side : B; Approx. Time Counter : 11.3-15.2}**

**Hank Hudson, Administrator of Human and Community Services**, explained that SB 77, amended to make it retroactive would need to be passed. The state would also need to submit a state plan amendment to the federal government. **Mr. Hudson** stated that the federal government has been generally responsive to creative TANF programs. **Director Gray** stated that the Department is committed to getting this taken care of by March 1.

**{Tape : 2; Side : B; Approx. Time Counter : 15.3-17.8}**

**Pat Gervais, LFD**, reviewed the fifth issue, payment of Department of Administration computer services fees. Full payment of computer charges is not included in the Department's estimated



FY01 cost. If the actual billed costs are paid, the general fund deficit will increase by \$258,800. Capping payments in certain programs potentially shifted costs to other programs, and this cost shifting may lead to the federal government questioning costs in other programs.

**{Tape : 2; Side : B; Approx. Time Counter : 17.8-20.2}**

**Connie Welsh, Office of Budget and Program Planning**, explained that the budget office has watched these costs decrease since fall; they have not included the costs in the supplemental. The Department does a monthly projection on ISD computer costs as it is billed, and those trends are tracked and costs adjusted. The budget office will continue to monitor the costs and believes that it will be able to pay for them out of the current appropriation.

**{Tape : 2; Side : B; Approx. Time Counter : 20.2-23.3}**

**Ms. Steinbeck** commented that the risk of general fund having to backfill the federal funding sources at ISD becomes greater if this management practice continues.

**{Tape : 2; Side : B; Approx. Time Counter : 23.3-27.4}**

In response to questions from **SEN. COBB** regarding the use of alcohol tax fund money, **Mr. Anderson** said that the statute on expenditure of alcohol tax money is not clear, but he understands that the money can be spent only for state approved programs for chemical dependency or alcoholism treatment. The Department plans to use the \$500,000 in this year's budget to fund chemical dependency for patients in Montana State Hospital, which is not a state approved program, through a contract with Montana Chemical Dependency Center (MCDC). There is \$162,000 which is already being used for state approved programs which is another place that this money could be put for use. **Mr. Anderson** stated that changing the statute would make it helpful to use the alcohol tax money in the next biennium, but that the Department believes that it can use it FY01 as well.

**{Tape : 2; Side : B; Approx. Time Counter : 27.4-30.7}**

**Ms. Steinbeck** observed that even under proposed amendments to SB 264 alcohol tax funds must still be used to fund state approved programs. **SEN. WATERMAN** asked what state approval takes. **Mr. Anderson** explained that alcohol and drug abuse programs must go through an approval process that is managed by the Quality Assurance Division. The Department believes that even with the restriction that it must go to state approved programs, it is not a barrier for the coming biennium. There are four programs that are both mental health and state approved programs that the funding could be used for. In addition, the funding could be used to contract with a state approved program that has an

arrangement or sub-contract with the mental health program. The intent of using that money for people with co-occurring mental illness and chemical dependency can be met with SB 264.

**{Tape : 2; Side : B; Approx. Time Counter : 30.7-33.4}**

In further discussion it was determined that the Department believes that the contract could be written in such a way as to meet the legal requirements for serving those with chemical dependency and mental illness with the alcohol tax fund money.

**SEN. WATERMAN** commented that there has been much testimony on the unmet need of people with co-occurring illnesses, and she sees no reason why a larger number of state approved programs cannot be contracting and working with a mental health program to meet those needs.

**{Tape : 2; Side : B; Approx. Time Counter : 33.4-43.4}**

**SEN. COBB** asked **Mr. Chappuis** if the changes he wants to make in DRG weights to more accurately reflect the impact of changes in case mix could be done by March 1 in order to save money this year. **Mr. Chappuis** said that it would be difficult to do equitably. It is a complex change and the Department would need to put a lot of time into it. The adjustment of the capital cost component of DRG rates is being done on an emergency rule, so will be included. On the outpatient hospital services questions, **Mr. Chappuis** explained that his model runs high, showing outpatient running \$3.8 million more over the biennium than in the current budget. **Mr. Chappuis** believes that **Mr. Billings** is correct on his figures. The changes that the Department would like to make n outpatient hospital services are complex and would require discussion with the hospitals and the Montana Hospital Association and could not be done by March 1. The division is investigating the reduction of payments for observation beds in the outpatient setting by emergency rule.

**{Tape : 2; Side : B; Approx. Time Counter : 43.8-49.3}**

Responding to **CHAIRMAN LEWIS** regarding the lack of action on these issues when the problems were first apparent, **Ms. Welsh** stated that last summer's discussions were primarily on the cost overruns in the mental health area. The lag-time in Medicaid claims means that problems do not become apparent until later in the year. December is usually when there is reliable data for projections. **Director Gray** explained that the Department would like the claim submission time shortened from a year to half a year to shorten that lag-time.

**{Tape : 3; Side : A; Approx. Time Counter : 0.4-2}**

**SEN. COBB** asked **Ms. Welsh** if the \$647,640 reduction in foster care in **Director Swysgood's** letter (Exhibit 3) had been done. **Ms. Welsh** responded that this is a reduction in costs that has

been identified since January 15, 2001. **SEN. COBB** asked if the Department had cut services to find this reduction and if they had kept the money would they have provided more services.

**{Tape : 3; Side : A; Approx. Time Counter : 2-3.4}**

**Ms. Gervais** explained that the Department reworked its projections for the next biennium and for FY01. This reduction reflects the use of additional federal funds that were not previously projected as being used in foster care. The Department feels that it will end the year with some general fund available within that division.

**{Tape : 3; Side : A; Approx. Time Counter : 3.4-7.3}**

**SEN. COBB** said that the Warm Springs budget is \$600,000 to \$700,000 in extra money. In the budget for next biennium, is the higher figure of 190 in the caseload there, or has it been reduced because of the services that will be provided outside the communities. **Director Gray** responded that the additional money will be put into community services - that \$2 million will provide community incentives to reduce the number of people at Warm Springs. If that reduction does not occur, the Department has been quite clear that the money has to go back to the Montana State Hospital budget. The Department is reducing services to children and funding them in a different way.

**{Tape : 3; Side : A; Approx. Time Counter : 7.3-10.6}**

**SEN. COBB** asked if the Department had made settlements to providers regarding the claims to Magellan that were not met. **Mr. Billings** explained that those were FY99 expenses and that there would be more paid to providers with disputed claims under either Magellan or May and June when the state picked up financial liability. **SEN. COBB** asked if the money came from this biennium or the last biennium. **Mr. Billings** said that the funds are being paid out of the FY99 \$2 million general fund reversion. It can be taken as a prior year expenditure. **Mr. Billings** said that there is a liability of \$500,000, much of which is Medicaid.

**{Tape : 3; Side : A; Approx. Time Counter : 10.6-22.7}**

**SEN. COBB** asked if there was enough staff to control the mental health budget and stated that he would like the Department to hire two clinicians to do this in order to save money over the long run. **Director Gray** said that if the Department had direction from the Committee to hire two clinicians, it might do that, but it is already making reductions elsewhere within the Department so hiring new people while making cuts could cause problems. There was continued discussion of the issue.

**{Tape : 3; Side : A; Approx. Time Counter : 22.7-24.2}**

**SEN. KEENAN** brought up the Xanthopoulos building problem. The wording of the minutes of the Land Board meeting is such that he needs a Committee bill to ensure that the State does not lose the Xanthopoulos building.

*{Tape : 3; Side : A; Approx. Time Counter : 24.2}*

**Motion:** **SEN. KEENAN** moved **TO SUBMIT A COMMITTEE BILL FOR A SENATE JOINT RESOLUTION TO REQUEST THAT THE XANTHOPOULOS BUILDING REMAIN A STATE BUILDING.**

**Discussion:** **CHAIRMAN LEWIS** asked if the Department or Executive had a position on this. **SEN. KEENAN** stated that **Director Swysgood** had submitted the draft resolution to him, indicating support. The Department of Natural Resources, to which the Land Board is administratively connected, has not responded to concerns about its minutes and the requirements of the Legislature to ensure that the Xanthopoulos building is not transferred to a county entity. In response to questions from **REP. JAYNE**, **SEN. KEENAN** said that the resolution would provide legislative intent, and the statutory language would protect the building from transfer outside state authority.

*{Tape : 3; Side : A; Approx. Time Counter : 28-28.1}*

**Vote:** Motion carried unanimously.

*{Tape : 3; Side : A; Approx. Time Counter : 28.1}*

**Motion:** **SEN. COBB** moved **THE SUPPLEMENTAL PLUS AN ADDITIONAL \$125,000, LINE ITEMED, FOR 4 FTE TO WORK ON COST SAVINGS.**

**Discussion:** **REP. JAYNE** asked **SEN. COBB** for further clarifications on his motion. He explained that his motion is for the \$16,254,248 plus \$125,000 for the staff that the Department needs to get things going so that it can begin to save money. **REP. JAYNE** commented that she is uncomfortable making such a swift decision on information received only this morning, since the numbers are always changing. **CHAIRMAN LEWIS** said that he does not think that the Committee is being irresponsible in considering it since the Department and staff had been working on the numbers since January 9. He would like to get the vote to so that he can have the opportunity to talk to the Appropriations chairman about getting a bill scheduled where it will be further considered. **REP. JAYNE** further commented that it does not seem prudent to add staff when cuts are being made elsewhere. **CHAIRMAN LEWIS** suggested that it can be voted on separately. **REP. JAYNE** asked what the consequences of such action on employees would be. **SEN. WATERMAN** said that the consequences of not having staff are apparent in that the supplemental has risen every month.

**{Tape : 3; Side : A; Approx. Time Counter : 48.2-50.5}**

**CHAIRMAN LEWIS** called for a roll call on **SEN. COBB's** motion.

**Vote:** Motion **carried 5-1** with Jayne voting no.

**{Tape : 3; Side : B; Approx. Time Counter : 0.1-1}**

**Mike Hanshew, Administrator of Senior and Long-Term Care**

**Division,** began his presentation on the Senior and Long-Term Care budget. He distributed information on the price-based reimbursement model for nursing homes **EXHIBIT(jhh35a08)**. There has been a steady measured growth in nursing home utilization causing it to be the largest expenditure in the Medicaid budget of this program until 1995 when utilization has begun to decline. Nursing homes provide fewer days but for sicker and older residents. The stays are shorter, but the care is very intensive. Nursing homes are highly regulated by proscriptive regulations which increase costs. In the past few years, it has become evident that the work force in nursing homes is shrinking due to poor wages.

The way that the Department pays nursing homes has exacerbated the problems. As occupancy changed and costs escalated faster than inflation, the flaw in the payment system has become apparent. **Mr. Hanshew** reviewed briefly the system which is based on values and incentives. As a result, money is taken from those that are paid the highest rates to those that are paid the lowest rates. There needs to be a more stable and predictable system of reimbursement.

**Mr. Hanshew** went over the price-based system the division would like to use. The state will establish a price for nursing home care based on the money appropriated from the Legislature. **Mr. Hanshew** reviewed the transitional mechanism that will bring those with the lowest rates up to those with the highest rates as shown in the last two charts in Exhibit 8. The Department is trying to manage in a way that will provide predictability and stability in nursing homes, but which is also fair to those with historically low rates. No nursing home will receive less than a 2% rate increase and some will receive much more, depending on how low they are.

**{Tape : 3; Side : B; Approx. Time Counter : 17.8-22.6}**

**CHAIRMAN LEWIS** asked if this contemplates using the extra intergovernmental transfer (IGT) money. **Mr. Hanshew** stated that, independently of the IGT money, the Department would like the nursing homes paid at one rate, depending on acuity. The IGT money would go on top of this rate increase in the form of a lump sum payment. **Mr. Hanshew** commented that he thinks that county facilities that are rural and remote should receive somewhat more than other facilities. NP 121 would provide stability and

predictability for nursing homes so that they know what they can invest in infrastructure and employees from one year to the next.

**{Tape : 3; Side : B; Approx. Time Counter : 22.6-31.9}**

**SEN. WATERMAN** asked **Mr. Hanshew** if the IGT money goes on top and is not part of the rate, how will those nursing homes spend such that there is not a long-term obligation. He answered that it will go to the loss that they are incurring in operations since counties are using funds to keep nursing homes afloat. What is not spent on those costs could be spent on discretionary costs. It could go to one time expenditures such as bonuses for staff so that the money is not locked in. **CHAIRMAN LEWIS** asked if the Committee could require that counties use the IGT for health care. **Mr. Hanshew** commented that the Committee should not limit the ability to recapture some portion of this to offset local mills that were already going to operation of the facilities.

**{Tape : 3; Side : B; Approx. Time Counter : 31.9-37.9}**

**SEN. WATERMAN** requested clarification on what the division will do with nursing homes in communities where there are several nursing homes in the area. **Mr. Hanshew** responded that non-county facilities will benefit from the IGT as well as county facilities, but that he would like to see counties receive more so that they will see the advantage of the IGT. The Department needs flexibility to adjust where the money that does not go back to general fund is going.

**{Tape : 3; Side : B; Approx. Time Counter : 37.9-46.}**

**Mr. Hanshew** mentioned that the Department has written to the federal government about using tribal funds to do match so that there will be a way to do some kind of government-to-government transfers. He also went over the growth rate of nursing homes and the effect that passage of elimination of Certificate of Need (CON) would have on that rate. The more attractive the nursing home reimbursement is financially, it becomes imperative that there is control of the numbers of beds. When nursing home beds are emptied due to the home and community waiver, if those beds are not filled by Medicaid patients, that is a real savings. The waiver does contribute to the decrease in utilization.

**{Tape : 3; Side : B; Approx. Time Counter : 46-49.5}**

**SEN. WATERMAN** made comments on CON and the need to examine the consequences of actions in the assisted living facilities and nursing homes. She remarked that she is concerned that the CON is protecting outdated and half-full nursing homes that people do not want to be in, which drives people to stay longer in assisted living facilities. Nursing homes need to modernize into something that people want to be in or else there will be a push

to revise assisted living facilities so that people can stay there, which will ultimately drive nursing homes out of business.

***{Tape : 4; Side : A; Approx. Time Counter : 0.3-7.0}***

**Mr. Hanshew** commented on the flexibility of personal care facilities to shape themselves to be what people want. On the other hand since nursing homes are governed by strict regulation, reshaping them to what consumers want is more problematic. **SEN. WATERMAN** mentioned nursing home quality issues, and the concerns of families regarding staffing levels. **Mr. Hanshew** would like to see that staffing levels are held steady and make staffing information available to the public. There was further discussion over federal regulations and state flexibility in implementing those regulations.

***{Tape : 4; Side : A; Approx. Time Counter : 7.3-28.1}***

**Mr. Hanshew** addressed the policy decision regarding the increasing demand for home and community waiver and the waiver waiting list. He reviewed the decision packages for the home and community waiver, present law adjustments, provider rate increases, direct care wage increases, and Adult Protective Services (APS) issues.

**ADJOURNMENT**

Adjournment: 11:45 A.M.

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REP. DAVE LEWIS, Chairman

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SYDNEY TABER, Secretary

DL/ST

**EXHIBIT** (jhh35aad)